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Message Text

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PAGE 01 NEW DE 04564 01 OF 02 231246Z
ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
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R 230923Z MAR 78
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 0399
INFO AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

LIMITED OFFICIAL USE SECTION 1 OF 2 NEW DELHI 4564

PASS AID AND TREASURY

E.O. 11652: N/A
TAGS: ECON, EAID, IBRD, IN
SUBJECT: WORLD BANK REPORT AND PREPARATIONS FOR THE CONSORTIUM MEETING

REF: NEW DELHI 4460

1. SUMMARY. AT A MARCH 21 BRIEFING ON THE WORLD BANK REPORT ON THE INDIAN ECONOMY (EXPECTED TO BE READY IN LATE APRIL), THE BANK'S CHIEF ECONOMIST, OKTAY YENAL, POINTED OUT THAT THERE WAS A UNIQUE OPPORTUNITY FOR INDIA TO MOVE TO A HIGHER GROWTH PATTERN. BOTH THE BANK AND THE GOI THOUGHT IT IMPORTANT TO STEP UP CAPITAL FORMATION AND IMPORTS DURING THE NEXT PLAN PERIOD (1978-83). HOWEVER, THE BANK IS PROJECTING MAINTENANCE OF THE PRESENT LEVEL OF EXTERNAL ASSISTANCE IN REAL TERMS, WHILE THE PLANNING COMMISSION APPARENTLY ESTIMATES A SOMEWHAT LOWER LEVEL IN AN ATTEMPT TO
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PAGE 02 NEW DE 04564 01 OF 02 231246Z

MOVE TOWARD SELF-SUFFICIENCY. ALSO, THE BANK BELIEVES THAT FOREIGN EXCHANGE RESERVES WILL EXCEED $11 BILLION BY 1981-82 BEFORE TURNING DOWNWARD, IN CONTRAST TO THE GOI'S PROJECTION OF LOWER FX RESERVES AT THE END OF THE PLAN THAN AT PRESENT. ALTHOUGH BOTH SETS OF PROJECTIONS ARE VERY TENTATIVE AND SHOULD BE TREATED WITH CAUTION, WE BELIEVE IT IS IMPORTANT FOR US TO

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

FOCUS ON THE QUESTION OF FUTURE AID LEVELS TO INDIA AS WE PREPARE FOR THE UPCOMING CONSORTIUM MEETING. END SUMMARY.

2. CURRENT SITUATION. YENAL STRESSED THAT INDIA'S ECONOMY PRESENTED A "UNIQUE OPPORTUNITY" TO MOVE TO A HIGHER GROWTH PATTERN; THE QUESTION WAS HOW TO TAKE ADVANTAGE OF PRESENT CIRCUMSTANCES. HE STATED THAT DURING THE PAST THREE YEARS (SINCE 1975-76) COMPONENTS OF THE UNUSUAL ECONOMIC LANDSCAPE INCLUDED FOUR PERCENT ANNUAL INCREASE (IN REAL TERMS) IN AGRICULTURAL OUTPUT; HIGHER THAN AVERAGE INDUSTRIAL GROWTH; A DRAMATIC CHANGE IN THE BALANCE OF PAYMENTS, PARTICULARLY PRIVATE REMITTANCES FROM INDIANS IN THE MIDDLE EAST; AND RISING FOREIGN EXCHANGE RESERVES THAT REFLECTED INDIA'S NEW POSITION OF NET LENDER ABROAD. ON THE OTHER HAND, THERE HAD BEEN AN INCREASE OF ONLY ONE PERCENT PER ANNUM IN FOODGRAIN CONSUMPTION IN THE PAST THREE YEARS. INFLATION WAS NOT NOW AN IMMINENT DANGER (AVERAGE WHOLESALE PRICE INDEX IN 1977-78 WAS ONLY ABOUT FOUR PERCENT HIGHER THAN IN THE PREVIOUS YEAR).

3. FUTURE OPPORTUNITIES. ACCORDING TO YENAL, FOODGRAIN STOCKS AND FOREIGN EXCHANGE RESOURCES SHOULD BE USED TO INCREASE EMPLOYMENT AND INVESTMENT. IT WAS IMPORTANT LIMITED OFFICIAL USE

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PAGE 03 NEW DE 04564 01 OF 02 231246Z

TO STEP UP CAPITAL FORMATION, BUT INCREASED INVESTMENT WILL DEPEND IN LARGE PART ON THE COUNTRY'S ABSORPTIVE CAPACITY (ABILITY TO IMPLEMENT PROJECTS AND IMPORT GOODS).

4. IMPORT CAPABILITY. THE WORLD BANK IS PROJECTING A REAL INCREASE IN IMPORTS DURING 1978-83 OF 14 PERCENT PER YEAR. (THE ANNUAL RISE WILL BE HIGHER, ABOUT 20 PERCENT, FOR IMPORTS OTHER THAN PETROLEUM, FERTILIZERS, FOODGRAINS, EDIBLE OILS AND COTTON). THE BANK IS PROJECTING INCREASING TRADE DEFICITS, REACHING CLOSE TO $6 BILLION IN 1982-83 BUT NONETHELESS RECOMMENDS FURTHER IMPORT LIBERALIZATION, INCLUDING DUTY REDUCTIONS. YENAL SAID THAT THE INCREASE IN IMPORTS SHOULD NOT POSE INFLATIONARY PRESSURES. HE THOUGHT THE BANK'S PROJECTION WAS BROADLY CONSISTENT WITH THE GOI DRAFT PLAN'S FIGURES (TOTAL TRADE DEFICIT OF APPROXIMATELY $10 BILLION DURING THE PLAN PERIOD AND ANNUAL INCREASE IN IMPORTS OF 11-12 PERCENT).

5. RESOURCE MOBILIZATION AND FOREIGN AID. BOTH THE BANK AND THE PLANNING COMMISSION PROJECT A LARGE JUMP

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

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IN CAPITAL FORMATION, ALTHOUGH THE BANK HAS A SLIGHTLY LOWER RATE OF INVESTMENT GROWTH THAN THE 10.7 PERCENT PER ANNUM ESTIMATE IN THE PLAN. BOTH ESTIMATE AN INCREASE IN GROSS SAVINGS TO AROUND 23 PERCENT OF GDP BY 1982-83. HOWEVER, ACCORDING TO YENAL, THE GOI IS APPARENTLY PROJECTING DECLINING LEVELS OF EXTERNAL ASSISTANCE IN REAL TERMS (ALTHOUGH THIS IS NOT ENTIRELY CLEAR FROM THE BALANCE OF PAYMENTS FIGURES IN THE PRESS RELEASE ON THE DRAFT PLAN) AND AN INCREASE IN DOMESTIC RESOURCE MOBILIZATION. ON THE OTHER HAND, THE BANK ESTIMATES THE MAINTENANCE OF PRESENT LEVELS OF EXTERNAL AID AND NO SUBSTANTIAL INCREASE IN DOMESTIC SAVINGS AS A PERCENT OF GDP.

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PAGE 04 NEW DE 04564 01 OF 02 231246Z

6. FOREIGN EXCHANGE RESERVES. YENAL SAID THAT THE BANK WAS PROJECTING AN INCREASE IN FX RESERVES TO $11.5 BILLION BY 1981-82 (ABOUT 6-7 MONTHS WORTH OF IMPORTS THEN) BEFORE TURNING DOWNWARD. THIS ESTIMATE WAS BASED ON CONSERVATIVE PROJECTIONS OF REMITTANCES FROM INDIANS ABROAD ($1.2 BILLION PER YEAR) AND OF EARNINGS FROM OTHER INVISIBLES. CONVERSELY, THE DRAFT PLAN PROJECTS A LOWER LEVEL OF FX RESERVES IN 1982-83 THAN AT PRESENT, PARTLY BECAUSE OF PESSIMISTIC ESTIMATES ABOUT FUTURE FLOWS OF PRIVATE REMITTANCES.

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PAGE 01 NEW DE 04564 02 OF 02 231253Z
ACTION NEA-10

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SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 AGRE-00 IO-13 PA-01 /098 W
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R 230923Z MAR 78
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 0400
INFO AMCONSUL BOMBAY

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LIMITED OFFICIAL USE SECTION 2 OF 2 NEW DELHI 4564

PASS AID AND TREASURY

7. JUSTIFICATION OF FOREIGN ASSISTANCE. IN HIS TALK AND IN RESPONSE TO QUESTIONS, YENAL SAID THAT THE INDIAN ECONOMY WILL CONTINUE TO NEED FOREIGN ASSISTANCE AND THAT IT WAS IMPORTANT FOR THE AID EFFORT TO BE KEPT UP IN ORDER TO SUPPORT THE ABOVE STRATEGY OF HIGHER CAPITAL FORMATION AND GROWTH. HE NOTED THAT FOREIGN AID COULD NOT BE TUNED ON AND OFF IF THE ECONOMY WERE TO DEVELOP PROPERLY.

8. AGRICULTURE, INDUSTRY AND OTHER SUBJECTS. YENAL SAID THAT IN ADDITION TO THE MAIN SECTION THE BANK REPORT WOULD CONTAIN THREE SPECIAL CHAPTERS ON AGRICULTURE, INDUSTRY AND EMPLOYMENT. REGARDING AGRICULTURE, HE CALIMED THAT THERE WAS CONSENSUS ON WHAT HAD TO BE DONE - MORE IRRIGATION, EXTENSION WORK/RESEARCH AND FERTILIZER - BUT THE QUESTION WAS HOW TO ACHIEVE IT. HE THOUGHT THAT, GIVEN THE GOI'S RECORD IN THE PAST FEW YEARS, ITS TARGET OF 17 MILLION
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ADDITIONAL IRRIGATED HECTARES IN THE NEXT FIVE YEARS WAS FEASIBLE FROM AN ADMINISTRATIVE STANDPOINT. HE NOTED THE SHARP INCREASE IN FERTILIZER COMSUMPTION SINCE 1976, BUT SAID THE FERTILIZER USE BASE WAS NARROW AND MUST BE WIDENED. ON INDUSTRY, YENAL SAID THAT THERE APPEARED TO BE UNCERTAINTY ABOUT THEREAL CAUSES OF SLUGGISH GROWTH AND THE NATURE OF THE REMEDY. THE BANK THOUGHT IT IMPORTANT FOR THE GOVERN-MENT'S INDUSTRIAL POLICY TO BE PROMOTIVE (RATHER THAN PROHIBITIVE) IN ORDER TO INCREASE CORPORATE INVEST-MENT AND PROFITABILITY AND TO DO SOMETHING ABOUT THE POOR CONDITION OF AGRO-BASED CONSUMER GOODS INDUSTRIES, SUCH AS TEXTILES. YENAL SAID ALMOST NOTHING ABOUT EMPLOYMENT PROBLEMS. IN RESPONSE TO A QUESTION HE SAID THAT THE BANK WOULD NOT BE DISCUSSING FAMILY PLANNING MATTERS IN THIS YEAR'S REPORT BECAUSE THEY WERE COVERED LAST YEAR.

9. COMMENT: YENAL WARNED THAT BOTH THE GOI AND WORLD BANK PROJECTIONS OF ECONOMIC TRENDS IN 1978-83 ARE VERY TENTATIVE AND MUST BE TREATED CAUTIOUSLY. NEVER-THELESS, THE DISCREPANCIES BETWEEN THEIR ESTIMATES

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

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OF REMITTANCES, FOREIGN EXCHANGE RESERVES AND (TO A LESSER EXTENT) FOREIGN ASSISTANCE ARE SUBSTANTIAL. THEY SEEM TO REFLECT, SOMEWHAT DIFFERENT ESTIMATES OF PERFORMANCE IN THE EXTERNAL ECONOMIC SECTOR. THE GOI TRADITIONALLY SHOWS A GRADUAL DECREASE IN FOREIGN ASSISTANCE IN ITS DRAFT PLANS BASED ON ITS HOPE OF MOVING TOWARD GREATER SELF-RELIANCE. IT ALSO WANTS TO DRAW DOWN FX RESERVES. THE BANK BELIEVES THAT REAL LEVELS OF EXTERNAL ASSISTANCE WILL CONTINUE TO BE NEEDED, AND THAT FX RESERVES WILL CONTINUE TO GROW, AT LEAST FOR THE NEXT 3-4 YEARS. NEITHER
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PAGE 03 NEW DE 04564 02 OF 02 231253Z

YENAL NOR WORLD BANK REPRESENTATIVE KRASKE WENT BEYOND REASONS GIVEN IN PARA. 7 TO JUSTIFY CONTINUED HIGH LEVELS OF AID TO INDIA. BASED ON OUR TALKS WITH OFFICERS OF OTHER DONOR COUNTRY EMBASSIES HERE, WE BELIEVE THE QUESTION HAS BROAD INTEREST, AND WE SHOULD, THEREFORE, BE PREPARED TO ADDRESS IT AT THE NEXT AID TO INDIA CONSORTIUM MEETING.
GOHEEN

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